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RUEHBU/AMEMBASSY BUENOS AIRES 1499
RUEHLP/AMEMBASSY LA PAZ 2384
RUEHPE/AMEMBASSY LIMA 0637
RUEHSP/AMEMBASSY PORT OF SPAIN 3277
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RUEHSG/AMEMBASSY SANTIAGO 3806
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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 003311

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [EINV](#) [VE](#)
SUBJECT: CHEVRON'S CRYSTAL BALL

REF: A. CARACAS 03131

[1](#)B. CARACAS 03224

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: Econ Counselor and Petroleum Attache (Petatt) met with Chevron Latin America President Ali Moshiri (strictly protect throughout) on October 31 to discuss a variety of issues in the hydrocarbon sector. Moshiri believes the BRV will face serious problems in 2008 as a result of a decline in oil prices, lack of investment in production, and its irresponsible fiscal policies. He noted the BRV has shown some flexibility regarding the migration of the strategic associations to joint ventures in which PDVSA holds a majority stake. Chevron is not going to cut production in Venezuela despite a BRV request to do so to meet announced OPEC production cuts. Moshiri also stated Chevron was not assisting with the construction of the CIGMA natural gas complex. The Delta Caribe gas round was postponed because the BRV did not receive any bids. END SUMMARY

CHEVRON'S CRYSTAL BALL

[1](#)2. (C) Moshiri stated Chevron believes the BRV will face serious economic problems in 2008 as a result of a decline in oil prices, a lack of investment by PDVSA in production, and the BRV's irresponsible fiscal policies. Although Moshiri characterized the situation as a "collapse", his later comments backed off of that characterization.

[1](#)3. (C) Chevron believes that WTI will be trading in the 45 to 50 USD range in 2008 as a result of increases in production capacity worldwide. Although Moshiri was careful to note that prices could rise rapidly, he believes that any significant price movements upward will be in the form of

spikes rather than trends. Since the Venezuelan oil basket usually trades 12 to 14 USD below the price of WTI, a downward trend in oil prices will place significant fiscal pressure on the BRV. The BRV has not only increased its spending dramatically but it has focused its spending on consumption rather than investment. As a result, it will have very little to show for its increased expenditures.

14. (C) In addition, the conversion of the former operating service agreement fields to joint ventures in which PDVSA holds a majority stake has placed a significant strain on PDVSA's budget. Under the operating service agreements, PDVSA could finance its obligations at LIBOR plus 3 percent over a period of 10 years. Under the new joint ventures, PDVSA, as the majority shareholder, must come up with 50 plus percent of investments immediately. Moshiri said Chevron was paying 100 percent of the investments in the PetroBoscan joint venture and that PDVSA then reimbursed Chevron. He stated he believed the day was approaching when PDVSA will no longer be able to write a multi-million dollar check to reimburse Chevron.

15. (C) In the past, Venezuela has compensated for declining oil prices by raising production and cheating on its OPEC quota. However, due to a lack of investment, PDVSA no longer has excess capacity that it can utilize in order to cheat. Lack of investment is not the only factor that has hampered production. PDVSA simply does not have enough qualified personnel for its own operations and the new joint ventures. Moshiri stated PDVSA has tried to get Chevron to second more employees to PetroBoscan but Chevron has stated it simply does not have enough personnel to do so. PDVSA's personnel problems are further exacerbated by an exodus of expats.

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According to Moshiri, a significant number of expats have left Venezuela due to poor working conditions as well as a general unease regarding the political situation. Moshiri claimed PDVSA managers have made it a point to make life difficult for expats, particularly Americans. He said he has had a difficult time getting Chevron expat employees to work on joint projects with PDVSA staff. As a result of the shortage of technicians and engineers worldwide, both the expats and Chevron know that they can easily find employment with another company in another part of the world. (COMMENT: PDVSA officials appear to believe that Venezuela's substantial reserves gives them carte blanche to treat private sector companies in a heavy-handed manner without any negative consequences. International oil companies are not the only companies to suffer from this attitude. Executives from project service companies Foster Wheeler and Fluor told Petatt in meetings on November 2 and 3 that PDVSA officials do not realize that it is currently a "contractor's market". The executives stated they believe service companies that carry out major construction projects have begun to put Venezuelan projects at the bottom of the stack due to operational difficulties in Venezuela as well as the plethora of attractive alternative projects worldwide. END COMMENT)

16. (C) Moshiri also stated that production is not the only part of the hydrocarbon sector that is causing Venezuela problems. He added the state petrochemical company Pequiven has only 25 percent of its operations on-stream. In his opinion, the sector would be qualified as "dead" if it were operating at 75 percent. He also noted that refining operations are only on-stream 87 to 88 percent of the time.

17. (C) Moshiri believes that President Chavez may have some inkling of Venezuela's impending economic difficulties. He noted Chavez appears to be far less trusting of his subordinates and questions the information that they give him. During the groundbreaking ceremony for the CIGMA natural gas project, Chavez repeatedly asked when the project would be completed.

STRATEGIC ASSOCIATION MIGRATION

18. (C) Moshiri was upbeat about the migration of the strategic associations to joint ventures in which PDVSA held a majority interest (Reftels A and B). At one point in the meeting, he hinted that the BRV may abandon the migration project altogether. He stated that Energy Minister Ramirez told him PDVSA was abandoning its proposal to split the upstream and downstream operations of the associations. He attributed the shift to a realization on the part of PDVSA and the Energy Ministry that a split would have a significant negative effect on operations. (NOTE: Thore Kristiansen (strictly protect), President of Statoil Venezuela, told Petatt on October 30 that Statoil was not happy with the proposal to split upstream and downstream operations for operational reasons but that it could live with it. He stated Statoil had similar arrangements in other parts of the world. END NOTE)

19. (C) Moshiri said he is also trying to educate PDVSA and the Ministry on the serious financial consequences of a migration. According to Moshiri, a migration would produce a default and attendant penalties. Since the creditors have access to PDVSA's escrow accounts, they will not have any trouble collecting on the outstanding loan balances as well as the penalties. (COMMENT: As we noted in Reftel A, there are indications that lenders will not be as harsh on the BRV and PDVSA in the event of a migration as Moshiri believes. END COMMENT)

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OPEC CUTS

10. (C) Moshiri stated Chevron received a letter from the BRV requesting that it cut production by 17,000 barrels per day in order to meet Venezuela's announced OPEC cuts (Reftel B). He said Chevron had no intention of cutting production and noted the Hamaca strategic association is not producing at full capacity. He also added that Venezuela is not producing near its OPEC quota and that the rest of the OPEC members know it. Moshiri did not seem at all concerned about negative repercussions stemming from Chevron's decision not to cut production. (NOTE: Venezuela's current OPEC quota is 3.085 million barrels per day. Private analysts believe that current Venezuelan production hovers between 2.4 to 2.6 million barrels per day. END NOTE)

11. (C) COMMENT: Production cuts by PDVSA may be having negative repercussions in the rest of the hydrocarbon sector. Since a significant portion of Venezuela's gas is associated gas, a decrease in oil production also means a decrease in gas production. A Fluor executive told Petatt on November 3 that PDVSA production cuts have caused problems with the gas supply to the El Tablazo petrochemical complex. END COMMENT.

GAS PROJECTS

12. (C) When queried about recent press reports that Chevron was going to take an active role in the construction of the CIGMA gas project, Moshiri stated Chevron was not interested. He implied the BRV was pushing Chevron to take an active role but that Chevron was holding it at arm's length.

13. (C) Moshiri also said Chevron decided not to place a bid during the recent Delta Caribe gas auction. He stated the BRV decided to cancel the auction because it did not have any bidders. He blamed the lack of bidders on greedy Energy Ministry officials.

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